

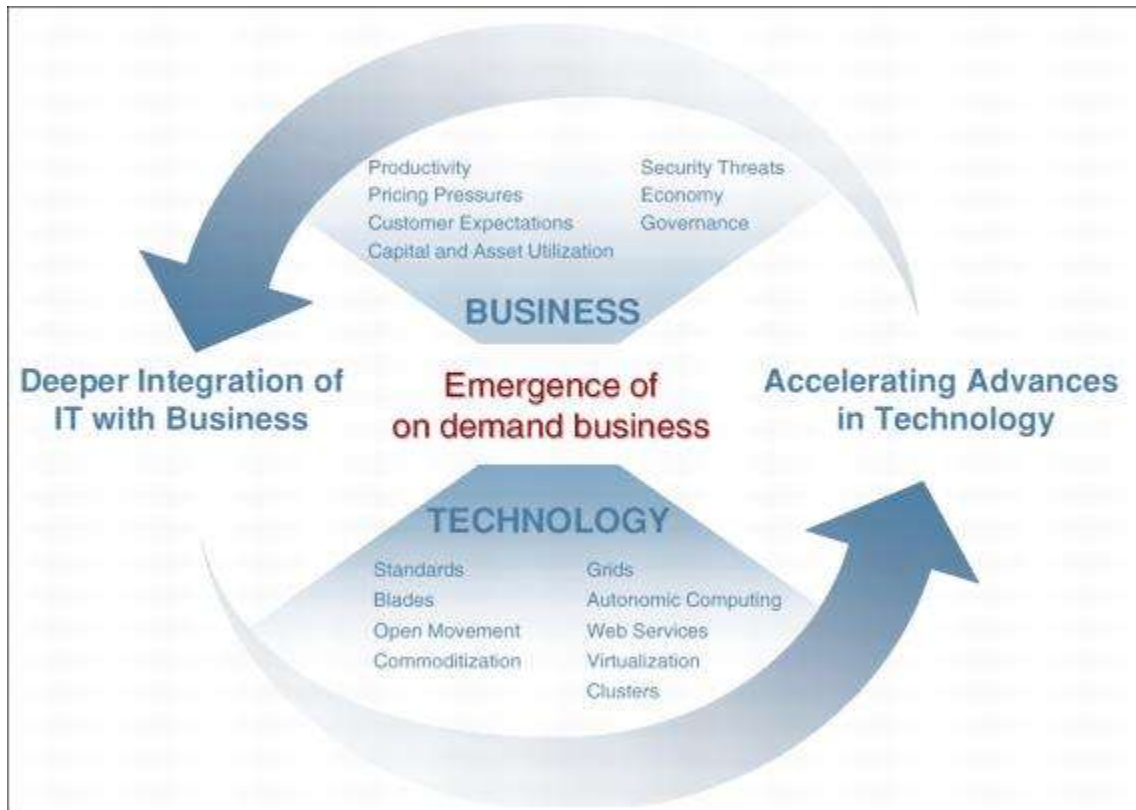
## Chapter 3

### “Marketplace Directions”

“We believe we’re on the cusp of a fundamental change in computer. Trends in technology and the application of technology to the needs of business are coming together in a new era we call ‘on demand’” – IBM CEO Sam Palmisano

- The Convergence of Business and Technology
  - Two converging forces are creating the enormous On Demand Business opportunity:
    - 1. A rapidly changing and challenging business environment
      - Companies are facing enormous volatility related to open markets, global competitive and partnering environments, security threats, and regulatory exposure.
      - There continues to be cost pressure across every industry.
      - The focus on cost will tend to persist as organizations attempt to derive business value out of greater levels of productivity rather than increased level or resources.
      - “Do more with less”
      - The quest for greater productivity cannot be achieved through just cost cutting. A fundamental transformation in the way businesses are organized is required for sustained productivity enhancement.
      - It’s clear that leaders in all industries will strive to use productivity as a primary driver of a sustained competitive advantage.
    - 2. The emergence of technologies that will enable new business designs and innovative methods of differentiation
      - Emergence of technologies have enabled companies to support their business operations in ways that were never previously imagined (ex. Open standards are emerging to enable easier connectivity of networks, systems, data, and applications).
      - Technology is increasing productivity by “doing more with less”.
      - Open standards and the unbridled growth of open development communities around the world are expanding the boundaries of what IT can achieve,
      - There have been increasingly rapid advances in microprocessor, wireless networking, storage, and even global positioning technologies at lower costs. Also, new virtualization technologies allow distinctly simplified management of rapidly expanding computer, networking, and storage infrastructures. This drives significantly improved resource utilization, pervasive security, and increased levels of autonomic capabilities.
      - The result of all of this is incredible innovation in the application of technology to meet business objectives and challenges.

- The convergence of business and technology creates the opportunity to drive both innovation and productivity, without sacrificing either. This convergence has enabled the emergence of On Demand Business.



- The Four Unstoppable Drivers
  - Continuous Change: The change in customer demands, technological innovations, and government regulations is increasingly sudden and dramatic.
    - Change is not constant and continues to gather speed, affecting every aspect of the business.
    - Technology is accelerating in areas like processing power, storage, and connectivity.
    - Clients and competitors adjust their behavior at increasing speeds thanks to real-time information.
    - Any type of disruption will produce wide range shocks and ripples that affect the business environment.
    - Organizations are compelled to respond to market changes more dynamically than in the past since they are finding that competitive advantages are harder to sustain.
  - Rigorous Competition: Due to increasingly transparent markets, competitive intensity is growing in severity as existing players and new entrants scramble to provide value to customers.

- Clients are armed with greater information and more choices than before. They have raised their expectations in terms of low prices, increased service levels, and higher-quality products.
    - Competitors are seeking to:
      - Expand market share
      - Enter new geographic, product, and demographic markets
      - Change the way that their markets are defined
    - The globalization of business services intensifies competition as enterprises exploit global scale and cost disparities at an ever-increasing rate. These factors, combined with a litany of conflicting and changing local, country, regional, and global regulations, have created the most challenging and complex competitive business environment in recent years.
  - Unrelenting financial pressures: The growth and predictability of revenues and margins becomes even more challenging due to economic uncertainties and demanding investors.
    - Higher levels of competition and fluctuating demand have produced an environment of reduced margins and rates of return.
    - Investors demand rigorous financial and managerial performance due to corporate scandals, closer scrutiny by auditing firms, and a large number of bankruptcies.
    - To return to and sustain bona fide profit levels, companies turn to cost cutting and process performance enhancement.
    - To create long-term value for shareholders, companies need to grow revenue at a higher rate than that of the overall market. They must do so with financial transparency, predictable results, and reputable management standards.
  - Unpredictable threats: Pervasive dangers become real and prevalent as global firms see increased exposure to natural disasters, unstable geopolitics, and other market shocks.
    - Risks to business performance and continuity are becoming more widespread as companies are exposed to larger, damaging shocks to their competitive and operating environments.
    - Companies must be prepared for risks associated with terrorism, military actions, legal decisions, political actions, or regulatory mandates in every country in which they operate. Also be prepared for computer viruses or network hacking (may place employee privacy and security at risk), or natural disasters.
    - Businesses need safeguards in place against unimaginable threats and also to be able to react quickly when the unimaginable happens.
- **The On Demand Business Response**
    - The emergence of technology that is unequivocally open, flexible, and integrated is allowing for a response that is equally intense and dynamic.

- Businesses are now finding that it is possible to form organizations that process and support technology that can cope effectively with the four unstoppable drivers.
- Companies will adapt more successfully to their common environment by mastering the four dimensions of being responsive, focused, variable, and resilient.
  - Continuous Change → Responsive: Seeming almost intuitive in its ability to sense and respond rapidly to unpredictable changes in the market environment and the needs of all its constituents.
    - This requires an organization that closely monitors shifts in consumer behavior, competitor activity, labor conditions, supply constraints, regulatory change, and other market events.
    - It is not simply having the capability to produce information that is accurate, real time, and actionable across the enterprise. It also means having the capability to adjust forecasts, pricing, manufacturing, and purchase decisions immediately.
    - It has the ability to customize offerings to fit specific client needs without sacrificing the ability to offer a low price.
    - If companies align their behaviors to the changing market conditions, it drives market share and increased margins. It also reduces inventory requirements, limits capital expenditure that support products/markets that are unprofitable, and also manages risks by keeping key business decisions synchronized with changing market requirements.
  - Rigorous Competition → Focused: Committed to concentrating on differentiating competencies, using tightly integrated strategic partners to manage selected non-differentiating activities.
    - Requires understanding how the market is likely to evolve and what the company's role is within it.
    - Requires a clearly defined value proposition for clients and stakeholders.
    - Means putting responsibility for non-differentiating business model components in the hands of external specialists (can bring scale and scope efficiencies and higher quality service).
    - What to focus on is determined by industry maturity, past company success, available future competencies, tacit and tangible knowledge, and competitors' strengths.
      - Some focus on client-oriented activities (ex. Marketing, sales) while others focus on production (ex. Manufacturing, logistics)
    - On Demand firms out-task many functions that used to be in-house. This way they can improve performance of support functions

- Helps create value and keeps investments directed toward select areas that helps sustain comparative advantage.
  - Helps companies grow revenues by taking market shares from traditional competitors and concentrating on emerging products and market areas.
  - It improves margins by reducing operational costs, withdrawing from products and markets with low profitability, and targeting areas with the highest profit potential.
  - It optimizes the use of capital by decreasing ownership of non-differentiating assets and reducing the working capital requirements of remaining activities.
- Unrelenting Financial Pressures → Variable: Able to adapt cost structures and business processes flexibly, in order to reduce risk and to do business at higher levels of productivity, cost control, capital efficiency and financial predictability.
- Means having the ability to increase or decrease production quickly as market requirements dictate, on a cost-effective basis.
  - It's helping to take the "fixed" out of fixed costs through variable pricing and supply by having external providers. These external providers provide flexible supply at a lower cost.
  - Helps reduce risk and conduct business at higher levels of productivity, cost control, capital efficiency, and financial predictability.
  - By having an infrastructure ready, it helps to grow revenues which helps meet demand volumes.
  - It improves margins by reducing fixed costs so the company pays only for actual use (not availability).
  - It reduces capital requirements by leveraging the capacity of external providers.
  - It optimizes working capital by creating more flexible internal capabilities.
  - It manages risk by reducing investments in inefficient assets. This reduces the company's debt burden by decreasing the need to finance new assets and driving greater financial predictability.
- Unpredictable Threats → Resilient: Prepared for changes and threats such as technological, economic, or political threats, enabling the business to continue operating with consistent availability, security, and privacy.
- Requires a commitment to plan and prepare for potential shocks that could impact the business in any location in which it operates globally.

- Testing helps to determine the firm's limits and identify weaknesses.
  - Having the ability to safeguard human, physical, and virtual assets (protecting the privacy of employee, supplier, etc. information).
  - It builds redundancy to help ensure continuity,
  - It determines whether external partners are also prepared for changes and threats.
  - Provides values where unpredictable threats may exist
  - It finds ways to avoid or lessen the economic consequences of potential business disruptions.
  - It positions the organization favorably against less resilient competitors.
  - Helps to grow revenues by keeping the business constantly available to clients and allowing the company to gain market share while other competitors recover from external shocks.
  - Improves margins by reducing recovery costs through "self-healing" capabilities and receiving price premiums from clients for non-stop availability.
  - Helps manage risk and by doing so, it reduces business disruptions, provides greater predictability in performance, and uses external specialists who increase overall resilience through their scale and distributed capabilities.
- On Demand Business Industry Examples
    - Electronics
      - LAM Research Corporation
        - Wanted to create virtual and variabilized operations that allowed them to focus on their differentiating activities to invest more in activities that drive value.
    - Banking
      - Viewpointe Archive Services
        - Wanted to shift its business to pay-as-you-go model and sought a technology partner to underpin its business which was capable of delivering a reliable and secure check imaging service.
    - Consumer Products
      - McCormick
        - Needed to integrate its core systems to enhance its operational resiliency and become more responsive to clients.
    - Retail
      - Mikasa

- Wanted to integrate its online store with back-end systems to make search and purchase functions more efficient and reliable.